TASK FORCE
ON THE FUTURE OF THE
PORT OF HALIFAX

PHASE I

REPORT ON CONTAINER TRAFFIC

JULY , 1992

Gerald Regan, P.C., Q.C.
Chairman

Members:
Mary Jane Andrews
David J. Hennigar
Kenneth C. Rowe
Harry R. Steele

TASK FORCE ON THE FUTURE OF THE PORT OF HALIFAX

Bruce A. Marchand
Counsel

Members:
Elwood L. Dillman
Robert A. MacKay
Donald R. Sobey
Larry Wark

July, 1992

The Honourable Donald W. Cameron
Premier
Province House
Halifax, Nova Scotia

Sir:

Pursuant to the mandate given this Task Force on the 17th day of October, 1991, we are pleased to deliver this report of the Task Force on the future on the Port of Halifax.

We believe that implementation of the recommendations contained in this report will be of benefit to the future of the Port of Halifax.

We have the honour to be your obedient servants.

Gerald Regan

Gerald Regan, P.C., Q.C.
Chairman

cc The Honourable Thomas J. McInnis
Minister of Economic Development

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Bank of Montreal Tower, Suite 1600, 5151 George St., P.O. Box 247, Halifax, Nova Scotia Canada B3J 2N9
Telephone (902) 492-2000 Fax (902) 429-5215

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PREFACE

The future of the Port of Halifax as a container port is at risk.

During the past year major shipping and transportation trends and other factors have resulted in a significant loss of container cargo at the Port. For this, and other reasons, the Premier of Nova Scotia created a Task Force to study the future of the Port. The Task Force members were selected from various segments of provincial life and not limited to those involved directly with the Port's operations. The Task Force was asked to explore and consider facts, issues, ideas and facilities which impact on the Port's competitive position. The goal was to make recommendations addressing the immediate problems facing the Port and to stimulate interest in long term solutions and strategies.

Over the past several months the Task Force has received information, testimony and recommendations from many of the Port's stakeholders on the operations of the Port and related transportation issues. The investigations of the Task Force did nothing to alleviate concerns about the future of the Port. Quite the contrary. It is our view that immediate and decisive action is required for the Port to face the challenges caused by shipping and transportation trends. The continued viability of this Port is essential, not only to the direct stakeholders but also to the economy of the Atlantic Region as a whole. It is critical not only to the movement of import/export cargo but also to the movement of domestic cargo by rail since the future viability of the Port and the inland rail system connecting it with major Canadian and US markets are inextricably linked.

In view of the significant losses of shipping line services the Task Force determined that this Phase I report would focus on the problems and recommended solutions relating to the transportation of import/export containers. This report contains our recommendations on this and background information upon which these are based. The Task Force has been asked, and has agreed to continue its work to consider other aspects of the Port and related transportation systems to be addressed in a subsequent report.

As convinced as we are of the seriousness of the problems facing the Port we are equally confident that this Port can retain its world class status and continue as an economic force and life line for the region. The Task Force believes that the recommendations in this report, if implemented in a timely fashion, will contribute a great deal to the success of this Port. The rest will depend upon the resolve and initiative of those involved in the Port's operations and related transportation facilities.

It is our sincere hope that our recommendations will receive prompt action from Government and will elicit a spirit of cooperation and partnership from the various organizations which comprise the transportation system serving the Port of Halifax.

INTRODUCTION

The Port of Halifax, like other world ports, is constantly challenged by the fact and pace of change. There have been profound changes in shipping and transportation over the past several years which have impacted on the Port of Halifax. The survival of the Port has in the past, and will in the future, depend upon how we respond to these changes.

The move some twenty-five years ago to containerization of cargo for international and domestic trade brought the Port of Halifax great dislocation and change. However, the Port responded then by embracing, rather than resisting, this trend and moved to establish container terminal services. Until recently, the Port's annual tonnage of container cargo has steadily increased. Today, we must respond to current transportation trends with creativity, decisiveness and a sense of urgency.

One of the more important changes affecting the Port of Halifax and other North American ports results from developments in rail transportation. Between 1984 and 1989, the number of double-stack trains (train cars which each carry two containers, one stacked on the other), increased from six trains per week to 250 East bound departures from West Coast ports per week. A combination of deregulation, certain operational efficiencies in the US rail system and a more favourable US tax climate made double-stack train service from West Coast ports competitive with "all-water services" between the Far East and the East Coast of North America.

US East Coast ports and railways responded aggressively to this loss of business by cutting port costs, providing targeted incentives and enhancing inland services. In some cases, incentives were directly targeted at diverting Canadian-bound cargo from the Port of Halifax.

At the same time, C.P. Rail provided a direct and cost effective rail link from the ports of New York and Philadelphia to Central Canadian markets with the purchase of the Delaware and Hudson Railway. This significantly reduced the Port's competitive edge vis à vis North Eastern U.S. ports such as New York given the considerably longer inland distance from Halifax to Central Canadian markets and the correspondingly higher inland rail costs. Other railway operations also enhanced their services from U.S. Ports to Canadian markets providing additional competition.

These trends coincided with severe overcapacity in several shipping line routes which caused downward pressure on shipping line freight rates. This prompted carriers to pursue cost-cutting measures which included reduced port calls and the sharing of space on vessels with competitors through charter arrangements. The North

American recession also contributed to this trend and to further reductions in container traffic.

The result was a series of cancellations and reductions in service at the Port announced in 1991, involving ACL/Hapag-Lloyd, Italia/Evergreen/CGM, ACT/Pace & Columbus, OOCL, "K" Line, Ocean Star, and UM Shipping. While these losses are of great concern, we are even more concerned about the potential impact of further losses. There is the very real danger that further losses will reduce container traffic volumes below the critical mass necessary to maintain Halifax as a viable Port.

Under current federal policy, the national railways, including Canadian National Railways Inc. ("CN"), are mandated to operate on a self-sufficient basis and, more critically, are required under the National Transportation Act to charge "compensatory rates" on each of their lines. This means that rail rates for each route must cover the cost of operations with some contribution to a return on capital. As with many businesses, declining volumes of container traffic results in higher per-unit costs. Given the fierce competition from US East Coast ports such as New York and the rail systems connecting those ports with our traditional Central Canadian markets, we are at risk of being caught in a downward spiral. This will occur if volume reductions lead to minimum compensatory rates which are higher than the costs through US ports. Shippers, consignees and shipping lines are increasingly "port-blind" when it comes to shipping containers. There are no preferences, sentiments or considerations more critical than the computer calculated cost comparisons of competing ports and transportation routes. Aside from the important aspect of timeliness, it boils down to the cost of moving a container from point A to point B.

On the surface, the policies of the federal government requiring financial self-sufficiency and compensatory rates are understandable. In recent years, federal governments have been under serious financial pressures as a consequence of massive deficits and mounting national debt. At a deeper level, many of these policies have been counterproductive to the movement of cargo and particularly international container cargo through Canadian ports. At the same time, the federal government, and in some cases, provincial and municipal governments have imposed taxes and regulations that hobble the ability of Canadian railways to compete with their American counterparts which serve American ports. A succession of federal governments have failed to adopt and implement policies essential to the survival of Canadian ports and the development of East-West transportation links that are essential to a national transportation system.

A striking example of the neglect of federal responsibilities is the fact that the Government of Nova Scotia recently found it necessary to fund the provision of double-stack container railcars to CN in an effort to stop the erosion of container traffic at the Port of Halifax. CN was not prepared to initiate this service without assistance. The Federal Government, charged with the responsibility for national railways, did nothing to meet this need. This raises serious questions about whether federal legislation and policies require changes to provide stronger support for the economic needs of this region.

The advantages of the Port of Halifax as an ice-free, deep water port situated just off the Great Circle Route are well known. However, the Port of Halifax has the unfortunate distinction of being more than 500 miles away from its principal markets for international cargo, unlike most North American ports. The federal government cannot make the distance from Halifax to Toronto/Montreal as short as it is from New York to Toronto/Montreal. It can recognize its national responsibility to promote an effective East-West rail link by bringing the federal tax system affecting Canadian railways in line with their U.S. competitors. It can support the equipment and capital requirements of CN to establish effective double-stack train service and other infrastructure requirements for a more competitive rail system. It can allow greater autonomy to the Port of Halifax and a higher level of input to those who stand to gain (or lose) the most from decisions affecting the Port and it can provide a legislative and policy framework to encourage the greater utilization of Canadian ports.

By contrast, State and Municipal Governments in the US have responded aggressively to the challenges of shipping trends. For example, the Port Authority of New York and New Jersey responded with predatory incentives affecting container traffic destined for Central Canada. It provided an incentive of approximately $50 per container. Labour contracts at the Port of New York were renegotiated to provide greater flexibility and reduced costs. Both the Port and Labour Union members benefited from the increased traffic. No doubt, part of the reason the Port of New York was able to respond so quickly to market changes is because of the fact it is a local authority controlled by the States of New York and New Jersey. The Port Authority of New York and New Jersey derives significant revenue from other operations such as commercial real estate leasing and toll revenue from bridges and other transportation infrastructure. The Port Authority of New York and New Jersey also has the legislative ability to issue tax advantaged bonds. They also benefit from dredging by the U.S. Corps of Engineers. This coupled with advantages in terms of fuel, income and other taxes on port and rail operations makes it obvious that the Port of New York will continue to pose stiff competition to the Port of Halifax as will other U.S. East Coast ports. These sources of support are not available to the Port of Halifax. If we are to remain competitive other forms of assistance will be required.

While this Task Force was appointed by the Provincial Government, it is impossible for us to limit our recommendations to areas within provincial jurisdiction if we are to fulfil our mandate. Canada has a vital stake in the continued existence of the Port, and many of the actions that must be taken to assure the continued viability of this Port require the Federal Government to meet its responsibility. We call upon the Federal Government to adopt the recommendations of the Task Force within its jurisdiction and upon the Province of Nova Scotia to pursue these recommendations in Ottawa.

Before summarizing the recommendations of the Task Force which are discussed in greater detail in the body of this report, it is useful to set out the several conclusions reached by the Task Force which form the basis for these recommendations;

I. By far the largest portion of the cost of moving a container from Europe to Montreal/Toronto by way of Halifax is the rail haul from here to Montreal/Toronto. However, we must not regard other services and costs as inconsequential. It is true that the inland rail cost component is critical and urgent measures are required to address this. However, the transportation system is increasingly integrated and every component must be made more competitive. This is essential if we are to overcome our geographic disadvantage. With greater competition within the shipping industry, it is, as one shipping line representative indicated, increasingly a business where "dimes and nickels" make the difference. The future success of the Port will depend a great deal upon the extent to which all of the parties in the transportation system serving this Port can contribute to making it more competitive.

II. The globalization of trade brings with it increased competition. As the shipping trends previously discussed illustrate, this is true of our transportation industry. This reality is reason for the Federal Government to reconsider tax policies that were put in place many years before greater competition developed from American ports. It is our belief that Canadian railways must compete on a "level playing field" vis a vis their U.S. counterparts with respect to taxation.

III. We believe that decisions affecting the Port and rail transportation systems serving this Province must have substantial regional input from the parties most affected. The thrust of our recommendations is to empower regional authorities to deal with the issues most affecting them to enhance the responsiveness and speed of decision making.

IV. Transportation systems are becoming more sophisticated and increasingly integrated. Like any integrated system, the success of the transportation system serving the Port of Halifax and this region is dependent upon a high level of coordination and cooperation amongst the integrated parts. In this case, the component parts include the Halifax Port Corporation, Canadian National Railways Inc., the two terminal operators, the Halifax/Dartmouth Port Development Commission, organized labour, the Maritime Employers Association and others. Each of these entities can point to specific examples of their own successes and, on occasion, to their perception of failures of others. Nevertheless, it is apparent to the Task Force that perhaps the greatest single failure for which each must bear responsibility is the failure to maximize the benefits which we believe will be realized by functioning together in a strategic partnership directed at better serving the customers of the Port.

The recommendations found in this report are aimed at increasing the cost competitiveness of the Port, increasing the level of cooperation and coordination amongst organized labour, management, the railway and terminal operators as well as at promoting a higher level of regional autonomy to achieve more responsive decision making within the transportation system serving the Port and its customers.

SUMMARY OF RECOMMENDATIONS

The Task Force recommends that:

Independent Port Authority

1. The Federal Government move to establish an **independent** port corporation for the Port of Halifax ("Port Authority") with authority and responsibility for the administration of all aspects of the Port currently exercised by the Halifax Port Corporation without the financial, procedural and other limitations imposed by Canada Ports Corporation and the Federal Government. The Federal Government might retain certain regulatory authority, and a degree of fiscal responsibility. The new Port Authority would have far greater autonomy than currently granted to the Halifax Port Corporation and would have a broader mandate in the coordination with rail and terminal operators of the marketing and promotion of the Port. The Port Authority would operate under the direction of a Board of Directors appointed upon recommendation of the Province of Nova Scotia;

Inland Rail

2. CN provide more focused attention on the transportation needs of this region and the customers of the Port of Halifax;

3. CN be mandated to contribute to the growth and promotion of a competitive intermodal system in Canada by providing inland transportation services to major Canadian ports at a level of service efficiency and cost effectiveness required to maintain the viability and growth of major Canadian ports in support of national and regional objectives;

4. The compensatory rate restrictions on railways in the current National Transportation Act be amended to permit Canadian railways to charge less than compensatory rates for the movement of import/export containers where the principal objective of such pricing is the maintenance or promotion of import/export container traffic through Canadian ports;

5. The Federal, Provincial and Municipal Governments take steps to ensure a "level playing field" with respect to commodity and other taxes as compared to competing US railways;

6. CN proceed with the expansion of double-stack train service from Halifax to Central Canadian and US Midwest markets with Federal Government support where necessary; and

7. CN proceed immediately with the establishment of an intermodal terminal in Halifax in the most cost effective manner.

Feeder Service

8. A common carrier feeder service from Halifax serving New England markets be encouraged and, if necessary for the establishment of such a service, short term incentives be made available.

Labour/Management

9. (a) Both organized labour at the Port and the Maritime Employers Association ("MEA") need to improve labour relations. They must achieve more flexible arrangements which are responsive to the needs of Port users.

(b) The Task Force recommends a much higher level of independence for the Halifax branch of the MEA. We also recommend that the offices of MEA in Montreal be required to provide Halifax representatives with more detailed financial disclosure and in general a higher level accountability. and

(c) The Canada Labour Code be amended to better facilitate the appointment of new employer representatives to negotiate on behalf of employers at Canadian ports and to provide fair and democratic mechanisms for the de-certification of incumbent employer representatives at such ports.

Pilotage

10. (a) The operational pilotage activities within the Port of Halifax be made the responsibility of the new Port Authority while the Federal Government would retain powers on safety related matters;

(b) Pilotage charges be based on the cost of providing the service and not, necessarily, on the size of the ship as is the current practice; and

(c) The pilotage operations at the Port of Halifax should not be required to subsidize pilotage activities at other ports in this region.

RECOMMENDATIONS

The Task Force makes ten recommendations which are detailed in this section together with supporting arguments. The findings and conclusions in this report have led to these key recommendations which are directed mainly at the movement of containers through the Port of Halifax. To a large extent these recommendations are integrated and interdependent. While the adoption of certain recommendations to the exclusion of others may result in some improvement, our recommendations are based upon the assumption that substantially all of them will be implemented.

1. Independent Port Authority

The Task Force recommends the establishment of an independent port corporation having broad authority over the activities of the Port of Halifax ("Port Authority"). The Port Authority would have authority and responsibility for administering the following:

(i) all buildings, equipment and facilities currently administered by the Halifax Port Corporation;

(ii) any other lands which may, in the future be incorporated by agreement or otherwise;

(iii) all wharfage fees, tariffs and rebate programmes relating to Port facilities;

(iv) pilotage operations;

(v) coordination of and leadership for marketing and promotion of the Port and, where possible, consolidation of marketing efforts;

(vi) representation of the Port's interest in relation to federal legislative and regulatory matters directly or indirectly affecting the Port; and

(vii) policing and security.

Several organizations are charged with responsibility for various aspects of import and export activities at the Port. During the course of the hearings of the Task Force, many witnesses complained about the proliferation and uncoordinated activities of these organizations. In many cases, these criticisms focused on the marketing aspect and on costs but were not solely limited to these issues.

The Halifax Port Corporation's spending authority is limited by its parent corporation. The Halifax Port Corporation is and its predecessors were inhibited from challenging or making recommendations on federal transportation policy because it reports and is accountable to the Federal Government. These limitations and the concerns of Provincial and Municipal Governments on Port development led to the creation of the Halifax Dartmouth Port Development Commission. The Commission was also mandated to carry out a promotion and marketing role. This approach has left us with a fragmented marketing arrangement which many, including the organizations who carry on marketing themselves and some shipping lines, consider to be less than ideal. In some instances it has, in fact, been considered counter-productive.

The marketing of the Port is currently carried on by the Halifax Port Corporation, the Halifax Dartmouth Port Development Commission, Halterm Terminal, Ceres Terminal and CN. Most of these entities guard their marketing independence and their cost and pricing information. At the same time, there appears to be unanimity as to the pressing need for a more coordinated marketing effort. The Task Force is of the view that the marketing roles of the Halifax Dartmouth Port Development Commission and the Halifax Port Corporation should be consolidated under the authority of the new Port Authority. The Task Force has also concluded that a more autonomous local Port Authority can more effectively coordinate the marketing and operations of the Port with the terminal operators and CN.

The Task Force is of the view that the degree of control exercised by the Federal Government through Canada Ports Corporation over the Port's operations is excessive and an undesirable hangover from the days of the National Harbours Board.

The Halifax Port Corporation must submit its proposals for capital spending beyond its discretionary limits to Canada Ports Corporation. This is scrutinized by various officials within Canada Ports Corporation. After this process it is forwarded to Transport Canada for a similar review. There are numerous offices or routings within Transport Canada to review such proposals as well as business plans and budgets. Canada Ports Corporation appears to be financially supported through

dividend income from various ports. A certain percentage of the profits of Halifax Port Corporation are automatically dividended out to Canada Ports Corporation. At the same time the Treasury Board can and has in the past taken additional monies out of the Halifax Port Corporation over and above the automatic dividends. The requirements for such duplication of services and such payments would be removed by the creation of an autonomous Port Authority.

The success of the Port of Halifax is vital to the economic future of Nova Scotia and therefore all major aspects of its operation should be directed by Nova Scotians accountable to the Provincial Government. At the present time, all appointments to the Board of Directors of the Halifax Port Corporation are made by the Federal Government and those directors are therefore accountable to Ottawa.

Ottawa has already granted more local authority to the ports of Montreal and Vancouver which they have designated Tier I than they have allowed the Port of Halifax. While deploring this limitation of the Port's autonomy we wish to make it clear that we do not consider Tier I status to be a sufficient solution to the problems of the Port. The challenges facing the Port of Halifax are so profound and the importance of this Port to the Nova Scotia economy so critical that only an autonomous Port Authority locally controlled can adequately protect the vital interests of Nova Scotia.

The Federal Government has recently moved to implement this very concept by relinquishing operational control of a number of major airports across the country in favour of local interests. The parallels to port operations are so compelling that there can be no credible justification for not following a similar course for the Port of Halifax.

Our research has shown that many of the world's major ports have, over the last several years, moved to greater regional autonomy. Major international ports in other countries have determined that the interests of their port can best be served when it is operated and managed by people appointed by the local community responsible to that community of interest. For example, New Zealand moved in 1988 to divest itself from national ports. They provided that a board of directors be appointed by the shareholders of the local port authority.

There are precedents in Canada and Nova Scotia for the creation of Independent Authorities. The Government of Canada and the Province of Nova Scotia signed the Canada-Nova Scotia Accord in August 1986 respecting the management of offshore petroleum resources. As a result, the jurisdictional questions were set aside and an agreement was reached which in essence stated that there would be neither Federal

nor Provincial Management of the offshore petroleum resources. Instead, an independent Board was established through mirror Federal and Provincial implementation legislation, to manage the resource on behalf of both governments.

A similar approach was used respecting the petroleum resources offshore Newfoundland and has been proposed as the pattern for the Arctic and Beaufort as well as the West Coast of Canada. The Board was set up with the Chairman/CEO being jointly appointed by both levels of government and the other Board members evenly appointed by the Federal and Provincial governments.

The experience of the Federal Government at major Canadian airports and with joint management models such as the Canada-Nova Scotia Offshore Accord provides working examples of independent authorities. The exact structure and allocation of authority and responsibility must be determined in light of the specific requirements of the Port of Halifax and the objectives outlined in this report.

INLAND RAIL

General

The following general discussion on the role of CN in Atlantic Canada provides a perspective for the recommendations in this report as they relate to the railway.

Canada has long depended for its prosperity and well-being on trade. Successful trade is dependant upon a comprehensive and competitive transportation system that serves domestic and international needs. There is now ample evidence to demonstrate that the policies of successive federal governments in regard to railroad transportation regulation and port operations no longer serve the nation appropriately. This evidence is discussed later in this report.

What is troubling about these policies is that they work against the spirit of Confederation. A brief look at the CN experience will serve as a good example of how the problem developed over time.

In 1867, part of the price paid to entice New Brunswick and Nova Scotia to join Confederation was the promise of a rail link between the Maritimes and Central Canada. That promise was fulfilled with the opening of the Intercolonial Railway in 1876. The Intercolonial was operated by the Government of Canada as the principal Maritime inter-provincial railroad until 1920. In 1918 the CN system was created by legislation passed by Parliament following the recommendations of the

Drayton-Acworth Royal Commission report released in 1917. The Intercolonial was made part of this system.

The story of the Intercolonial is important because it underpins present Maritime attitudes toward the railroad. It illustrates an initial dissatisfaction with the railway because of the route chosen for the Intercolonial - a choice made at the insistence of the British government. The route along the north shore of New Brunswick and down the Gaspé Peninsula was selected by the British as necessary for defence reasons. They wanted the railroad as far from the U.S. border as possible. For the Maritimes, however, this meant a longer, more costly and time-consuming route which by-passed major economic centres of New Brunswick and one which would require Federal Government compensation to mitigate against this competitive disadvantage.

Secondly, it demonstrates that the link between the railroad and the rest of the nation was considered vital by Maritimers for their economic prosperity. From the beginning, they realized that any hopes for industrialization, access to markets, and the opportunity of becoming major shipping points for Canada's Atlantic trade were linked to an effective railway system.

To offset criticism of its choice of route and to help the region compete, freight rates on the Intercolonial were maintained below those in Central Canada until 1912 by the Federal Government. Between 1913 and 1923, the rates were adjusted until they were generally at a more commensurate level vis à vis Ontario-Québec rates. This occasioned a major protest from the Maritimes which, together with a series of other Maritime complaints, led to the Duncan Royal Commission of 1926 which in turn led to the passage of the Maritime Freight Rates Act in 1927. This Act provided for a 20% reduction of rates within the territory east of Levis, Québec. The reduction held only on the eastern portion of the through-rate and did not apply to traffic moving into the Maritimes. In 1957, the subsidy was increased to 30% and in 1969 it was extended to goods carried by truckers.

An important conclusion to be drawn from this brief historical account is that within the Atlantic Provinces there is a long tradition of viewing the railway as an important instrument of regional economic development.

2. CN - Atlantic Focus

The Task Force recommends that CN provide more focused attention on the transportation needs of this region and the customers of the Port of Halifax.

It is for CN to determine how this might best be accomplished; however, the Task Force recommends that CN consider establishing a separate more autonomous Atlantic Division.

The Task Force has concluded that CN must be more directly accountable to Atlantic Canada. To do this we recommend that CN consider the appointment of a regional advisory board consisting of strong representation of Atlantic Canadian private sector interests appointed on recommendation of the Provincial Governments of this region. There should also be at least one representative of the new Port Authority on this advisory board.

Representing a relatively smaller percentage of the population and economic activity in Canada, the Atlantic Region is susceptible to being overlooked in the context of the national operations of CN and Canada Ports Corporation. CN is faced with a federal policy mandate of self-sufficiency as well as competition from the trucking industry, Canadian and U.S. railways and, at the moment, a difficult economic environment. This would naturally incline CN to focus its limited financial resources and management efforts on those aspects of its rail system which are expected to generate the highest return. It appears that CN has focused a great deal of its resources on expansion into U.S. markets, and on those segments of its national system where it faces the fiercest competition from CP Rail and others. With the exception of the intermodal terminal planned for Halifax, it is difficult to find examples of capital being directed specifically at enhancing the competitive position of CN in the Atlantic Region. It is much easier to call to mind examples of branch-line abandonment and service reductions in this region.

This exemplifies the lack of a coordinated transportation policy in this country. Because CN's focus is primarily on rail and Canada Ports Corporation's mandate appears restricted to ports there is the obvious opportunity for divergent policies and operational plans. This denies the reality of the transportation industry in Canada and indeed the world, which is increasingly dependent upon integrated forms of intermodal transportation. The increasing level of sophistication and interdependence amongst different modes of transportation demands a coordinated effort. It is this much needed coordination which is lacking in federal transportation policy.

The edited version of Canada Ports Corporation's final report of the Container Competitiveness Committee entitled "Towards a Canadian Intermodal System: Recommendations for Change" released in late 1991 seems to recognize this deficiency in our national transportation policy by recommending that the mandate of Canada Ports Corporation be broadened to include the following goal:

> To contribute to the growth and promotion of a competitive, intermodal system in Canada providing port, inland transportation, and data interchange services so efficient and effective that the Canadian container transportation industry as a whole will remain viable and grow to support national and regional objectives.

The report goes on to call for Canadian railways to put forward their views on the best means for achieving a competitive Canadian intermodal system and to recommend that the federal government formulate and support a national intermodal transportation policy from which a national container strategy can be developed. The report acknowledges that Canada is more dependent than other countries upon an efficient, effective and competitively priced rail transportation system and that Canadian ports are far more dependent upon rail service than their U.S. counterparts.

The Port of Halifax is perhaps one of the best examples in this country of the urgent need for a coordinated effort between rail and port authorities. Ultimately it is the federal government's responsibility to ensure a consistent and effective transportation policy which allows us to be competitive in world trade. Unfortunately, Canadian railways are not directly accountable to the regions they serve. The problems facing the Port of Halifax are too urgent to await the evolution of a more effective and coordinated Canadian transportation system. The Task Force therefore recommends the establishment of a regional advisory board to provide input into CN's decisions affecting this region and a higher level of accountability of CN to Atlantic Canadians.

3. CN Mandate

The Task Force recommends that CN be specifically mandated to contribute to the growth and promotion of a competitive intermodal system in Canada by providing inland transportation services to major Canadian ports at a level of service efficiency and cost effectiveness required to maintain the viability of and growth at major Canadian ports in support of national and regional objectives.

As part of this mandate CN must include, as one of its major obligations and strategic priorities, the maintenance and development of the main rail line connecting the Port of Halifax with its major inland markets in central Canada and the development of markets in the US on a basis competitive with U.S. Port routings.

4. National Transportation Act

The Task Force recommends that the compensatory rate restrictions on railways in the National Transportation Act be amended to permit Canadian railways to charge less than compensatory rates for the movement of import/export containers where the principal objective of such pricing is the maintenance or promotion of increased import/export container traffic through Canadian ports.

Subsection (2) of Section 112 of the National Transportation Act, 1987 ("NTA"), states that any net rate charged by a Canadian railway "...shall be compensatory."

Subsection (3) of Section 112 provides that "A rate shall be deemed to be compensatory when it exceeds the variable cost, as determined by the Agency, of the movement of the traffic concerned".

It is our understanding that one of the principal objectives of this Section was to prevent unfair competition among Canadian railways and between railways and trucking interests. While there may be general satisfaction with the effect of this Section there is also potential for damage to our national and regional economic objectives which was unintended. In particular, this legislative restriction inhibits CN from seeking to protect existing markets during transitional phases in technology and railway infrastructure. The National Transportation Agency may make an order disallowing a non-compensatory rate "...unless the company establishes to the satisfaction of the Agency that the rate does not have the effect or tendency of substantially lessening competition". While acknowledging that CN may be able to satisfy the burden of proving that such rates do not unduly lessen competition in certain instances, we believe that the exception should be expanded to reflect the

national interest in international trade. The exception in the current Act focuses on competition and does not include the promotion of import/export container traffic.

The Task Force believes that the NTA should be amended to be more specific in its objectives and to exempt from the compensatory rate restrictions the movement of import/export containers particularly over longer distances. We believe that this would better equip CN and other Canadian railways to remain competitive in the movement of import/export containers and fulfil its mandate in support of national and regional economic objectives.

5. Federal and Provincial Taxes/Capital Cost Allowance

The Task Force recommends that Federal and Provincial Governments take steps to ensure a "level playing field" with respect to commodity and other taxes, as compared to competing U.S. railways. Measures recommended would include the following:

(i) reduction in Federal Excise Tax on fuel;

(ii) elimination of Provincial Locomotive Fuel Tax (other than Nova Scotia which has already done so);

(iii) reduction of Provincial Rolling Stock Sales Taxes;

(iv) reduction of Provincial and municipal taxes on railways and right-of-way property taxes;

(v) allowance by Federal Government of write-offs on railway equipment at the same rate as US railways; and

(vi) replacement by Federal Government of Capital Cost Allowance for railway track infrastructure with a transferrable or refundable Investment Tax Credit.

There are many factors which determine the relative competitiveness of Canadian railways vis à vis their U.S. counterparts. Some of these factors are external and others internal. For example, the relatively smaller population base and large distances between Canadian population centres reduce the traffic densities for Canadian railways as compared to U.S. railways. The productivity of labour employed in the operation of Canadian railways is another important factor. In the last decade U.S. railways have made significant productivity gains relative to

Canadian railways based upon a measurement of gross ton miles per employee. In addition, labour, fuel and material costs, regulatory, environmental, employment and safety standards, currency exchange and interest rates all play a part in determining the competitive position of Canadian versus U.S. railways.

For various reasons, including falling trade barriers, new transportation regulations, shipping industry trends and U.S. railway productivity gains, Canadian railways are facing increased competition. This, in turn, adversely affects the ability of Canadian railways to reinvest in equipment and trackage upgrading which is required to effectively compete. This is particularly true where lines such as the Halifax - Toronto/Montreal run are vulnerable to U.S. railway competition. Fuel and property taxes are significantly higher in Canada than in the U.S. Based upon figures supplied by CN and CP Rail it is estimated that the aggregate of these taxes per container mile is 75% higher in Canada than in the U.S. If the tax rate for locomotive fuel alone were reduced to U.S. federal and state rates it is estimated that CN and CP Rail would pay approximately $169 million per year less. Savings on provincial fuel taxes would have accounted for 66% of this amount. Nova Scotia is the only province in Canada to have acknowledged this disparity by reducing its fuel tax to zero.

Nothing less than equal tax treatment will enable CN to successfully confront the other competitive disadvantages it has in meeting U.S. port competition in Canadian markets.

The uneven tax burden not only drives up rates but also deprives the railway of the ability to fund the capital requirements of technological change.

The existing tax regime was developed and evolved during a time when competition from American ports was not as significant. It is, quite simply, out of date and contrary to our long term economic interest. Other organizations such as the Canada Ports Corporation Container Competitiveness Committee and members of The Round Table on Transportation Through the Greater Vancouver Gateway have called for similar reforms. We add our voice to the call for major railway tax reform.

6. Double-Stack Train Service

The Task Force recommends that CN proceed with the expansion of double-stack train service from Halifax to central Canadian and U.S. midwest markets with Federal Government support where necessary.

We see the Government of Canada as having the role of supporting CN on the implementation of this service. That support may be necessary until volume is built to an optimum level and then can be discontinued.

In 1991 the Province of Nova Scotia provided financial assistance to CN for the construction of double-stack train ("DST") cars to introduce this service to the Port of Halifax. This service has allowed CN to offer more competitive inland rail rates for the movement of containers. The Task Force is not privy to the confidential contracts between CN and shipping lines; however, we understand that at least some portion of the resulting cost savings have been passed on to carriers in the form of reduced rail rates. At current volumes, however, the potential cost savings from double-stack service has not been fully realized by CN. Greater volumes are required to reduce DST rail rates and yet reduced rail rates are required to encourage greater volumes. At the same time, CN may be inhibited by the compensatory rate requirements of the National Transportation Act from offering near or below cost incentive pricing to encourage the volumes necessary to optimize operational cost savings resulting from DST service.

Maintaining a critical mass of container traffic on the CN is vital to the viability of the rail link itself. The Federal Government should closely monitor the traffic level in consultation with the railroad and be ready if necessary to provide assistance to maintain the critical volume of container traffic until a more efficient and extensive double-stack train service can be established which would in turn encourage greater container traffic.

There are well known precedents for Federal Government financial support of international transportation links. The significant subsidies to the St. Lawrence River and Seaway system is one such example. Federal Government funding for the purchase of eight thousand covered hopper cars between 1972 and 1977 for Western grain is another. This Port has a similar need to be met.

There can be no guarantee that optimizing the cost savings from an expanded double-stack train service will mean the recapture of all lost Canadian-bound cargo or penetration into new markets. U.S. ports and railways have already demonstrated their ability to respond with competitive counter measures. On the other hand, the

failure to institute an effective double-stack train service to the Port of Halifax will, in our view, be detrimental to the future of the Port and perhaps irreparably so.

An effective double-stack train service can assist the Port of Halifax to add to its major markets Chicago, western New York and the U.S. midwest. Such a service may also re-open our opportunity to compete for Far East cargo destined for the midwest which has been lost to U.S. west coast ports.

CN is proceeding with the construction of a new tunnel at Sarnia/Port Huron connecting southwestern Ontario and eastern Michigan. This tunnel will help streamline the flow of rail freight between Canada and the United States. It is expected to cost $155 million and be operational in 1994.

The existing tunnel is well used and represents a transportation bottleneck that can add up to twelve hours transit time. It cannot accommodate double-stack train cars because of height restrictions. CN currently must break up trains at the border sending some cars by barge and others through the existing tunnel.

The new 6,000 foot tunnel will have the necessary clearances to accommodate double-stack container trains. The completion of this new tunnel may help to open up the markets of Chicago, Detroit and the U.S. midwest to the Port of Halifax in conjunction with an effective double-stack train service. While inland rail distances will remain longer than from competing U.S ports there appears to be a promising market for time sensitive cargo such as that carried in refrigerated containers.

The Task Force commends CN for this progressive initiative.

7. Intermodal Terminal

The Task Force recommends that CN proceed immediately with establishment of an intermodal terminal at Halifax in the most cost effective manner.

Intermodal terminals provide facilities for the loading and unloading of highway trailers and domestic containers which are moved to and from the site by road. The trailers or domestic containers are then moved long distances by the railway on specially designed rail cars. This technology has provided the opportunity for "partnership" arrangements between regional trucking companies and railways, allowing each mode to perform that part of the distribution function for which it is best equipped.

Construction of this terminal would have the benefits of:

(i) providing shippers and receivers with better access to markets outside Nova Scotia;

(ii) improving the economic viability of CN's mainline from Halifax to Moncton; and

(iii) substantially reducing the amount of tractor trailer traffic on the highway system between Halifax and Moncton.

A transportation study done by Peat Marwick Stevenson & Kellogg for the Nova Scotia Government in 1989 (entitled Transportation 2000) called for the immediate development of such a terminal. This terminal would add a major building block for the transportation infrastructure of the Port of Halifax.

8. Feeder Service

The Task Force recommends that a common carrier feeder service from Halifax, serving New England markets, be encouraged and, if necessary for the establishment of such a service, short term incentives be made available.

Like roads, railbeds and port facilities, a common carrier feeder service linking the Port of Halifax to New England markets is a desirable infrastructure component of our transportation system. From the many shipping lines that the Task Force interviewed we received the clear message that such a service is required. Hapag-Lloyd has established a feeder service, but for all practical purposes it serves only Hapag-Lloyd and ACL. Therefore, it does not enhance the attractiveness of the Port of Halifax for other shipping lines who otherwise serve the New England market through U.S. ports in combination with other transportation modes. The establishment of such a service could play a significant role in furthering the objective of promoting Halifax as one of the "hubs" of the North American intermodal transportation system. The New England market is large enough to represent a major market for this Port and a common carrier feeder service may be the incremental factor that persuades shipping lines to call on the Port of Halifax and for existing lines to call more frequently.

Feeder transhipment business is doubly attractive to port operations because of the double handling revenue for each container which must be unloaded and then subsequently loaded on the feeder vessel. It is estimated that west bound cargo

unloaded in Halifax and transhipped via feeder service to New England would arrive up to three days sooner than if shipped via the Port of New York.

If necessary for the establishment of such a service we recommend that government assistance be made available during the development stage. This infrastructure requirement for the Port appears to be precisely the sort of project for which ACOA was established.

9. Labour/Management

The Task Force recommends that both organized labour at the Port and the Maritime Employers' Association ("MEA") need to improve labour relations. They must achieve more flexible arrangements which are responsive to the needs of Port users.

The Task Force recommends a much higher level of independence for the Halifax branch of the MEA. We also recommend that the offices of MEA in Montreal be required to provide Halifax representatives with more detailed financial disclosure and in general a higher level accountability.

The Task Force further recommends that the Canada Labour Code be amended to better facilitate the selection of new employer representatives to negotiate on behalf of employers at Canadian ports and to provide fair and democratic mechanisms for the de-certification of incumbent employer representatives at such ports.

The Port of Halifax does not enjoy the quality of labour relations that would be in the best interests of all concerned. It is not the intention of this Task Force to attempt to assess blame for this however, we offer these recommendations with a view to contributing to more harmonious and productive labour relations at the Port.

The Task Force has found a lack of understanding of the common goal between management and labour. We urge that all practical steps be taken to improve communication. The competitive situation facing the Port requires flexible working arrangements that are responsive to Port users' needs. All who benefit from Port activity must realize that maximum effort and efficiency by workers and management will be required to enable the Port to meet today's competition.

Many have expressed concerns about the propriety of management decisions on labour relations being directed from a Montreal based employers' association. There are concerns about the consequences of absentee management, the allocation of

overhead costs, the potential for greater attention being paid to the interests of the Port of Montreal and the lack of full financial disclosure and accountability to Halifax members of the association.

The question as to whether the Port of Halifax should have its own independent employers' association for labour relations is one to be decided by the Halifax employers and not by this Task Force. However, we firmly believe that such a decision should not be inhibited by Federal legislation. The Canada Labour Code does not expressly provide mechanisms for de-certification of incumbent employers' representatives or for the appointment of a new representative chosen on a democratic basis by the employers at a local port. Indeed, there appears to be, from the cases decided by the Canada Labour Relations board in connection with challenges to incumbent employer associations, a tendency to maintain the status quo on the assumption this will be beneficial to stabilizing labour relations. This assumption is open for debate.

10. Pilotage

The Task Force recommends that:

1. The operational pilotage activities of the Port of Halifax be under the authority and responsibility of the Port Authority while the federal government would retain powers on safety related matters;

2. The charge for pilotage should be based on the cost of providing the service and not, necessarily, on the size of the ship; and

3. The pilotage operations at the Port of Halifax should not be required to subsidize pilotage activities at other ports in this region.

The Atlantic Pilotage Authority has full autonomy over its operations and pricing, subject to approval by the National Transportation Agency. During our review, the Task Force identified the following issues with respect to the Atlantic Pilotage Authority's current approach to cost recovery, pricing and operation.

The current method of calculating charges under the Atlantic Pilotage Authority discriminates against ports such as Halifax which attract larger vessels since the calculation is based upon ship size which bears no relation to the service which is essentially the same regardless of the size of the ship.

The Pilotage Act requires each regional operating authority to operate on a self-sustaining basis. In order to operate on a self-sustaining basis, the Atlantic Pilotage Authority is cross-subsidizing its operations at smaller Atlantic ports with the profits generated at the Port of Halifax. Consequently, Halifax is subsidizing other ports within the Atlantic Pilotage Region, which weakens its competitive position in the global market.

NEW INITIATIVES

The following initiatives were supported by a number of the organizations which appeared before the Task Force. While other initiatives were suggested, we have identified the following ones which we believe may have long term benefits to the Port. Further detailed analysis is required to develop these initiatives and so these are not the subject of specific recommendations. We call upon those parties who could best carry out these plans to analyze their feasibility.

(a) Distribution Centre

Halifax is the major port in Atlantic Canada, strategically located on the Great Circle Route, and close to the large New England markets. To attract new business and add value to the cargo passing through the Port, Halifax should explore the feasibility of establishing a storage, distribution, exhibition and assembly centre.

In the course of our deliberations we learned that the concept works well at the west coast ports. The Task Force suggests that a feasibility study be conducted to assess the extent of demand and identify potential users.

If the market supports the concept, the Centre could sell services such as product packaging and repackaging; labelling and marking for shipment; storage; and domestic product distribution. The Centre could be located to include cargoes which would also be handled by highway, rail and international air carriers. To establish long term commitment to the Port, the Centre could be owned by a consortium of transportation interests including the users of the Centre's facilities.

The activities of such a Centre could include assembly of goods from various markets on an import basis with a finished product for export, thereby increasing the level of transhipment of goods through the Port of Halifax. The local Autoport can be viewed as an example of the activity and success that such a Centre could bring to Halifax.

(b) **Hook and Haul**

The Task Force examined the practice in place on a number of North American railroads whereby the rails are used in effect as a common resource. The system, referred to as "hook and haul", operates on the basis of the railroad selling rights for trains organized by other interests to be hauled over their right of way.

While this system has been successful in some instances it would not appear at this time to be a better solution than the recommendations in this report. We believe that such a system could be more difficult to implement than the alternatives. It is a method that could be re-studied in the future.

(c) **New Markets**

Chicago/Western New York

Price and delivery time are the two key components for these and other markets. To effectively compete with New York and Montreal, a fully efficient DST service should be established for the entire route from Halifax to these markets. Even with this and other cost-cutting measures, Halifax may remain a higher cost route relative to Montreal and New York. To offset this, the Port and CN must ensure the quickest possible delivery times. The Port Huron/Sarnia Tunnel slated to be operational in 1994 is essential to greater penetration into the Chicago market. High value, time sensitive reefer cargo is an ideal target for this market.

Mexico and Latin America

There is an estimated 241,000 tonnes per year of Canadian/Latin-American import and export cargo currently moving through US ports. The economics of increased Latin-American trade may depend upon greater export to these countries of locally-originated goods such as fish and paper products. Return haul cargo would make it more advantageous for these ships to include Halifax as a north bound port of call. Efforts should be undertaken to determine whether this market can be developed.

Atlantic Canada Exports

Our investigations have shown that a not insignificant amount of exports from the Atlantic Provinces are shipped through American ports.

To retain existing shipping lines and to help attract new cargo business it is important that a sufficient level of Atlantic Canadian exports move through the Port. Programmes and policies which encourage an increased level of Atlantic Canadian export activity will also assist in the attraction of business to the Port of Halifax.

FINAL OBSERVATIONS

The members of the Task Force are grateful for the support and assistance of all those who appeared as witnesses or otherwise provided information.

The Task Force met on more than 25 occasions and carried on research and study between the meetings. The members of the Task Force have enjoyed the opportunity of serving their Province and express the hope that the results of these deliberations will be helpful to the future of the Port.

If we are to reverse the decline in container shipments through Halifax and other major Canadian ports the Federal and Provincial Governments must be prepared to make major changes as the existing problems cannot be solved by bandaid treatment or lip service.

We realize that our recommendations call for far reaching change. The commitment of Governments to retaining viable east west transportation links and preserving our ports can be judged by the action they take to implement these recommendations.

APPENDIX (i)

TERMS OF REFERENCE

THE TASK FORCE ON THE FUTURE OF THE PORT OF HALIFAX

Objective: The main objective of the Task Force is to find ways to improve the competitive position of Halifax as an international intermodal distribution centre.

While the future of the Port of Halifax is central to the issue, the Task Force will also consider any other service or facility which does, or could, affect the competitive situation.

The group will initiate, explore issues and ideas, and generally act as a catalyst for resolving immediate problems and stimulating interest in long term solutions.

In order to fulfil the objective, the task force will:

- seek resolution of immediate problems facing the Port of Halifax.
- provide a focal point for integrating the related issues which confront the Province in the face of increased competition to the Port of Halifax in its role as an international centre.
- stimulate interest, seek out and select potentially successful ideas, and identify a practical strategy which will secure and enhance the trade enabling facilities and activities available at Halifax.

The Task Force will consider, but not be limited to, topics such as:

- the obstacles hampering efficient and cost competitive inland distribution and transportation links;

- methods for retaining market share of cargo over the Port of Halifax; and

- the viability of new activities which have the potential to enhance Nova Scotia's position as an international intermodal distribution centre.

APPENDIX (ii)

THE TASK FORCE ON THE FUTURE OF THE PORT OF HALIFAX

MEMBERS

Chairman
Gerald Regan, P.C., Q.C.

Mary Jane Andrews

David J. Hennigar

Kenneth C. Rowe

Harry R. Steele

Counsel
Bruce A. Marchand

Elwood L. Dillman

Robert A. MacKay

Donald R. Sobey

Larry Wark